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deficit under current law that is expected to reach $853 million by the end of 1986. The budget reflects the administration's request that the Congress approve an increase in the single-employer premium to a level sufficient to cover projected claims, and amortize the current deficit over a reasonable period of time. The administration also supports legislation to revise the insurance program for single-employer plans in order to close loopholes in the Employee Retirement Income Security Act of 1974 that allow unwarranted assignment to the Corporation of liabilities for unfunded benefits.

Federal employee retirement and disability.—There are a number of employee retirement and disability programs in the legislative, judicial, and executive branches of the Federal Government. The largest program is civil service retirement and disability. Payments to retired military personnel are also included here.

Civilian retirement and disability programs.—The civil service retirement and disability system is the largest retirement program provided for the Federal Government's 2.7 million employees. Under existing law, in 1985 an estimated 2.0 million retirees and survivors will receive payments totaling an estimated $23 billion in outlays. Benefits are paid to former employees who meet eligibility requirements based on age and length of service, and to their survivors. Currently, full retirement benefits can begin at age 55 for employees with 30 years of service. Benefit levels are based on the employee's three highest salary years and are indexed to the Consumer Price Index (CPI). Current workers and their employing agencies each contribute 7% of wages toward retirement costs. The remainder—about 60% of total costs—is paid by taxpayers through annual payments to the civil service retirement fund.

The civil service retirement system has historically been separate from the social security system. However, employees hired after December 31, 1983, and senior policy officials are temporarily covered under a combination of civil service retirement and social security. In deciding to extend social security coverage to Federal employees, Congress intended that a new Federal retirement system supplementing social security would be in place by January 1986. In order to meet this goal, the administration plans to submit legislation for a new system containing a defined contribution plan and costing—including the employer share of the social security tax—approximately 20% of payroll on an actuarial normal cost basis.

The administration's priority continues to be to reform the high costs and generous benefits of the current civil service retirement system. The two aspects of the current system that diverge most from private sector practice are retirement with full benefits at age 55, and full indexation of retirement benefits to the CPI. Therefore, the administration proposes to:

- *Reduce the annuities of employees retiring early.*—The retirement age for full benefits would be raised to 65. Employees could still retire at 55 with 30 years of service, but the benefits would be reduced by 5% for each year under 65 at the time of retirement, such that the same lifetime benefit is paid regardless of the age at which it begins. Employees who are already 55 would not be affected, and the proposal would be phased in over 10 years to avoid unduly upsetting the plans of employees who are already near 55.
- *Limit cost-of-living adjustments (COLAs).*—Three proposals would change the way civil service annuities are adjusted to reflect changes in the cost of living. The scheduled January 1986 COLA would be eliminated. COLAs would resume in January 1987, but the civil service retirement COLA would be limited to the lower of the increase in general schedule pay or the CPI. Furthermore, civil service retirement COLAs would be limited to 55% of the revised COLA on the amount by which annuities exceed $10,000 in 1987. The $10,000 level would be adjusted by the COLA in future years.

In addition, the administration will propose the following reforms:

- change the base on which benefits are computed from the highest 3 years to the highest 5 years of an employee's pay; employees not eligible for retirement or within 3 years of retirement eligibility would not be affected;
- phase out retirement credit for unused sick leave;
- conform civil service survivor, adult student, and minimum benefits to those provided by social security;
- require the Postal Service and the District of Columbia to phase in the paying of the full cost of employee pensions less the employee's contributions; and
- discontinue retirement, life, and health insurance coverage for employees first hired by the District of Columbia after September 30, 1985.

In 1986, the package of civil service retirement reforms is estimated to increase receipts by $269 million and reduce outlays by $731 million. Changes to other civilian retirement and disability programs are estimated to reduce outlays by $10 million in 1986.

Military retirement.—Benefits are also paid to former military personnel and their survivors. It is estimated that there will be 1.5 million military retirees and survivors in 1986 receiving a total of $18.3 billion in outlays under current law. Normal retirement eligibility is attained at 20 years of service. The initial benefit is 2.5% of final basic pay per year of service. For personnel entering after September 1980, the average of the member's highest 3 years of basic pay will be used, as specified by current law, instead of final basic pay. Benefits are indexed to the CPI. Consistent with legislation for civil service retirement, the scheduled January 1986 COLA for military retirement would be eliminated. Military personnel also make contributions to and are eligible for social security.

Federal employees workers' compensation.—The Department of Labor provides tax-free cash and medical benefits to Federal employees or their survivors for job-related injuries, illnesses, or deaths. About 46,000 workers with long-term disabilities, or their survivors, will receive monthly payments in 1985. As a result of increased efforts to return recipients to work and to remove from the rolls those no longer eligible, the estimated recipient levels for 1986 are unchanged from 1985. The administration proposes to freeze the COLA for this program that otherwise would occur in 1986.

Federal employees life insurance fund.—The outlays of this fund are payments to survivors of Federal employees and former employees. Premium payments to this fund are projected to exceed outlays by $724 million in 1986.

Unemployment compensation.—About 97% of wage and salaried employment in the United States is covered by unemployment compensation programs, which pay benefits to individuals who are temporarily out of work and are searching for jobs. Based on the economic assumptions described in Part 3, an estimated average of 2.4 million workers per week will receive unemployment benefits during 1985 and 2.3 million workers in 1986. Outlays are estimated to decrease from $16.8 billion in 1985 to $16.3 billion in 1986 because of the decline in the projected average unemployment rate from 7.0% in fiscal year 1985 to 6.9% in 1986.

Regular benefits, usually paid for up to 26 weeks, are financed by a State tax on employers, and vary according to benefit levels set by each State. State and Federal administrative costs are financed by a Federal tax on employers. Legislation is being developed with the States and will be proposed to reduce the Federal tax and have the States finance their own administrative costs starting in 1988. Extended unemployment benefits, which increase by 50% the number of weeks an unemployed worker can receive unemployment compensation, are payable in States with high rates of unemployment among covered individuals, as defined by statute. The total number of weeks of regular and extended benefits may not exceed 39. Extended benefits are financed in equal portion by State and Federal taxes on employers.

Benefits paid to former Federal civilian and military employees are financed by the Federal agency that employed them. Additional benefits are available to certain workers in specific circumstances, such as former Conrail employees. Likewise, special trade adjustment assistance benefits are available through September 30, 1985, for workers deemed unemployed because of increased imports.

In 1985 the Department of Labor, working with the State employment security agencies, is implementing a quality control program. The quality control system will uniformly measure the accuracy of unemployment insurance payments in a systematic and representative sample of individual claims. It will identify eligibility and benefit errors and determine their causes. Using information from the system, State administrators will be able to identify sources of payment inaccuracies and allocate resources to correct them.

Without legislative action, the railroad sickness and unemployment insurance fund will be unable to pay full benefits on a timely basis during 1986. The budget proposes to ensure comprehensive, uninterrupted unemployment insurance coverage for rail workers by extending Federal-State unemployment insurance coverage to railroad employment beginning with a transitional program. Under this proposal, all rail workers becoming unemployed after September 30, 1985 would be eligible for the generally higher maximum weekly benefits available under the Federal-State program. Railroads would reimburse States for the costs of benefits paid during the transition, allowing States time to gain experience with railroad employment before regular State unemployment insurance contributions from the railroads begin. This proposal would ensure full repayment of the rail sickness and unemployment fund's debts to the rail pension fund.

Housing assistance.—The Federal Government provides housing subsidies for low-income families and individuals through several programs administered by the Department of Housing and Urban Development (HUD) and the Department of Agriculture (USDA). Eligibility for assistance is limited to households with annual incomes below 80% of median income in each community. In subsidized rental programs, tenants are required to contribute 30% of their income toward their housing costs. At the end of 1984, 5.8 million households received housing assistance. As a result of 1985 and prior funding and completion of units already under construction, this number will grow to 6.2 million by the end of 1986—4.2

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